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# Virtual Conference for Analysts and Investors

## FY 2022 Reporting and Investor Update
## February 24, 2023

## Transcript Q&A

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## 1 Current trading

**Christian Faitz (Kepler Cheuvreux):** Can you share with us what you see in terms of current demand trends in your chemical activities, so key customer industries and regions? Would you share the observation that there is going to be a recovery in the second half of 2023, catalyzed by growth in China?

**Dr. Martin Brudermüller:** I think it became very clear in the Q4 performance that the world markets and demand have cooled down in all regions, most strongly, however in Europe. These are also the conditions we now started with in the first months of 2023. There is, again, in January a negative volume development of around minus 15%.

We can see, however, when we talk with our customers that there is a little bit more positive or, let's say, less negative sentiment out there. But it is not yet translating into further demand and also not translating into additional order intake.

I think the only area where we really see a positive development and the mood is quickly getting better is in China because the second wave of COVID after Chinese New Year – where basically people mingled all over the country – has not appeared. Overall, we see that there is a mood change, and I would expect that the Chinese government will take this as an opportunity to stimulate the relatively low sentiment in consumer consumption.

So, we would expect that the recovery in China may even kick in a little bit earlier than expected. China definitely plays the most important part to start with a little bit a turnaround. It has also the capabilities – we know that from the 2008/2009 crisis – and the capacity to stimulate the world.

But that is about it. For Europe and for Germany, I would say, the outlook is less positive at the moment, and we cannot see turning points. Nevertheless, some politicians have indicated that there will not be a recession.

So, let's have a little bit more patience. But I think the first spark that might come to change the environment a bit might come out of China.

**Charlie Webb (Morgan Stanley):** Can you provide some color of what you are seeing in Q1 in terms of demand and profitability compared to Q4 excluding Ag? How has demand evolved? Are there any signs of a recovery in China after Chinese New Year? What are the implications of the lower gas costs?

**Dr. Hans-Ulrich Engel:** Gas costs are lower, for sure, compared with 2022 on average in Europe. But if I compare the period prior to 2022 with today's gas prices in Europe of, let's say, round about €50 per megawatt hour, that is at least double what we are used to with respect to historic prices. I think we always need to keep this in mind.

We don't just have the decline in natural gas prices. There are also certain raw materials where we see that price increases are no longer there or even certain price declines in specific areas. If we think about that, that helps a little bit in a situation where demand across the industries is low. It provides some support for the specific margins. We've seen that in January, and it continues in the month of February. But I think the overarching theme is that demand has not yet really picked up.

There are two exceptions, and you see this in Q4 in two segments: Agricultural Solutions and Surface Technology. In the ag industry, we've seen consistently strong demand in 2022. That now also continues at the beginning of 2023. Auto, in particular, or transportation, in particular in the second half of the year 2022, have picked up. We also see this continuing going into 2023.

# 2 Financial framework

## 2.1 Dividend

**Samuel Perry (Credit Suisse):** Does BASF stand by its ambitious dividend policy of increasing the per share dividend each year, given the flat payment of €3.40 per share in 2022? Does that mean this policy no longer holds? Should we expect a flat dividend for 2023, given the profit outlook?

**Jaideep Pandya (On Field Investment Research)***:* What is the outlook for BASF to cover its dividend? If we think that €5 to €5.5 billion is more the mid-cycle range and with a capex burden of €5.7 billion on average, how do you intend to cover the €3 billion dividends in the coming years?

**Dr. Hans-Ulrich Engel:** What we're doing for the year 2022 is keeping the dividend at the level of the year 2021. So, in other words, we keep it at €3.40. When we launched our new corporate strategy in 2018 and talked about dividend policy, we said that our ambition is to increase year over year, but I think we also had the proviso in there that for very challenging years we would consider keeping the dividend flat. 2022 certainly falls in the category of very challenging – you have heard what kind of additional energy, in particular natural gas, costs we had to digest. So this is what we are doing for the year 2022.

The payout overall will be in the order of magnitude of €3 billion, provided that the Annual General Meeting supports our proposal.

When we launched our dividend policy, what we always said is: Dividend payments depend on the free cash flow. You've seen us generating strong free cash flow despite all the challenges and all the difficulties in the year 2022: Free cash flow is above €3.3 billion, so fully covering the dividend payment for the year 2022. Free cash flow will also clearly be a guidance for our dividend payments going forward.

## 2.2 Share buybacks

**Chetan Udeshi (J.P. Morgan):** The net debt to EBITDA ratio was 1.5 at year end 2022 and might be close to 2 at year end 2023, based on guidance. One would expect buybacks to be countercyclical; so why cut the share buyback now with full-year 2023 guidance also in line with consensus?

**Dr. Hans-Ulrich Engel:** Let's go back to the point in time when we started the share buyback program. That was in the middle of January 2022. The world looked different from how it does today. We have certain priorities with respect to our cash utilization. Number one is organic growth. Martin and I have explained how the year 2023 will look with respect to capex, so a significant increase there.

That we had fully on the agenda when we launched the share buyback program. What we didn't have on the agenda were the significant changes that we experienced following February 24 of last year. I alluded already to the significant additional cost for energy and natural gas in particular, €3.2 billion hitting the BASF Group there.

So, overall, we came to the conclusion that we need to be a bit more protective with respect to cash. You've seen the dividend decision that we made in line with our dividend policy, but we think that the right thing to do at this point in time is to be a bit more cautious and to be a bit more protective with respect to cash.

## 2.3 Capital expenditures

**Andrew Stott (UBS):** Could you please detail the reasons behind the higher five-year capex guidance, at least relative to the previous five-year cycle? Could you also comment on the timings of the closures of the facilities in Ludwigshafen?

**Dr. Hans-Ulrich Engel:** I think, as explained also in prior years, this is now the period where we see the full impact of the two big growth projects: battery materials and the Verbund site in China. You see the increase by around €2 billion in capex spend for 2023 compared with 2022. We'll see all of this peaking in 2024, and from then on a decline. 2025 will still be on what I would call an elevated level. Then, from 2026 on, we'll see BASF again in an environment that all of us are used to with respect to capex spending.

The increases compared to the prior five-year plan have a number of reasons, not the least of them are currency developments that we need to take into consideration. But you are also adding a year with 2027 that is at a higher level compared with the prior-year term and the year 2022 is dropping out. So, that is the key explanation when you compare the five-year plans.

With respect to the shutdowns: That will be phased between 2023 and the end of 2025, going into 2026. So that will be a process over the next years.

**Michael Schäfer (ODDO BHF):** You show that plant closures in Ludwigshafen may reduce $CO_2$ emissions by 12% based on 2021 numbers. On your road to net zero until 2050 you earmarked €3 to €4 billion in capex until 2030. Are you now adapting this capex plan?

**Dr. Martin Brudermüller:** We have a very detailed list of projects contributing to the 2030 target. But I have also to say: The further you go to 2030, we still have certain options because there are more projects than we need in order to contribute to this target. So, we have also some choices. This is also where there is some uncertainty going forward.

All our major sites make their own decarbonization plans. You cannot do that with a one-size-fits-all approach because the circumstances at the sites differ. They all have different sources of $CO_2$, and they must comply with different legislation.

So, it could become more attractive to go faster with the decarbonization plans for our non-European, e.g., American sites than in Europe. That would mean that we would then reshuffle some of the funds to other regions which can maybe contribute to $CO_2$ reduction in a more economic way under a faster, less regulated, easier permitting process. There are many, many variables.

This is why towards 2030, some years before that in 2027/28, there will be another wave of projects in order to bring in the $CO_2$ savings in 2030. There is an uncertainty, but I think the guideline we gave you is still in line with what we told you earlier as the budget we need by 2030.

This is now the time where we have all these pilot plants. We have the water electrolysis facility here in Ludwigshafen, we have the heat pump projects. We also have the e-furnace for the cracker. After 2025, we will have projects that go into scale. So, that will be a little bit more investment-heavy than over the next two, three years.

I'm actually very thankful that we have options to stagger and reprioritize how we deliver the target for 2030.

**Peter Clark (Société Générale):** Your planned five-year capex has risen again to almost €29 billion, with Asia now almost half at €14 billion. This spend is more than three times that planned in North America. You talk about the risk of not being in China, but surely the risk of this focus is getting bigger for BASF.

**Dr. Martin Brudermüller:** I think you know the overall investment we have over there. You either build a Verbund site or you don't. You cannot cut it down and just build half.

We are doing a greenfield investment – you saw some of the pictures with the massive preparation also from the Chinese side that handed over the land – more than five square kilometers, elevated 7.5 meters above the ocean, partly on reclaimed land. This requires a longer ramp-up to be prepared. We have a lot of infrastructure investments which we have to do at the very beginning, because otherwise you cannot run the plants and you cannot connect them.

I think the execution for this relatively large amount is fairly ambitious in just three years. And to bring the site into operation in 2025, is quite bold, and this is why the costs add up.

But there are also some other opportunities in Asia which come on top. In terms of differentiation and diversification of risk and also in terms of regional contributions, I think this is a good message. There is also the battery value chain, where there will be also a significant capex for the automotive value chain outside of Europe.

We are very happy with this diversification, because if you look into the current shares from a regional point of view, we have slightly above 13% of the Chinese business in terms of sales and 10% in Germany. In terms of risk balance and risk management, we have to diversify our business outside of Europe. I think the numbers we have shown you show that they are very attractive and contributing quite a lot to our profitability.

I think, in that respect we are happy that we have these opportunities to put investments in the ground and are totally convinced that they will profitably add to BASF's plans going forward.

I don't want to make a big discussion about China because we have discussed the topic intensively in past meetings. We have done the maximum you can do in terms of looking into all the pros and the cons. But looking at the sizeable and very profitable business we have today in China and the advanced stage we are in with this project, our conviction is that this will be a super site. Stopping our plans would have major implications and there is no reason to do this.

We came to the conclusion that it is better for BASF to be there and to participate in China's growth rather than to step out because of a potential risk. We are aware of the risks, but we are also very much aware of the benefits and the opportunities for BASF.

**Christian Faitz (Kepler Cheuvreux):** Is your €10 billion Zhanjiang project still in budget from today's point of view?

**Dr. Martin Brudermüller:** Yes, it is.

## 2.4 Outlook and guidance

**Markus Mayer (Baader Helvea):** On what assumptions are the upper and the lower end of the EBIT before special items guidance range based?

**Dr. Hans-Ulrich Engel:** We've given you the macro data. We've given you what we think with respect to a key currency, which is the U.S. dollar, and for oil. But I can also tell you that this was probably the most challenging budgeting process that I have experienced in my career; there is so much uncertainty at this point in time. Think about topics like gas price development. Think about where we were with respect to gas prices in November and December last year and where we are now towards the end of the winter. I don't know too many people who were of the opinion that gas prices in Europe at this time would be around €50 per megawatt hour. Most people back in November, December had more a range of €100 to €150 in sight.

What I am trying to say? There is a very high uncertainty out there. We've tried to factor in all of this, and we've given you a range that we've narrowed down to the extent possible.

We factored in the fact that we had a very weak Q4, very low demand there, dropping towards the end of the quarter – not a big surprise in a low-demand environment. On top of this came the usual year-end working capital optimization. We have factored in the expectation that there should be an improved economic environment, at least in the second half of the year; hopefully we'll see something already from Q2 on.

All of that went into this guidance. And, again, let me say: This was probably the most challenging budgeting process and, as a result of that, also the most challenging discussion around what we issued as guidance.

**Dr. Martin Brudermüller:** Let me add one point which, I think, is really important. We had the best first half of BASF's history last year, which is the baseline for this year's performance. If we go forward with the environment we have told you, you will see a significantly lower first half year. So, our budget is also a little bit more backloaded than it is normally. We expect that there will be some recovery in the second half, which, as I said, could be very well stimulated from China as we saw in 2008 and 2009. You will therefore see a significant difference in the first half year this year compared with last year because of the base effect.

**Christian Faitz (Kepler Cheuvreux):** How confident are you that your number-one customer industry, automotive, will see sustainable demand once the supply-chain-induced bottlenecks are solved, in other words: when the order backlog has been worked off?

**Dr. Martin Brudermüller:** We had 6.2% growth last year. That will be a little bit lower this year because there were also pre-buying effects in China because of stimulation measures. But we continue to think that the automotive industry is rather helping the overall economic development this year rather than slowing it down. We had also different times in the past, and you know that this is a very important industry for us.

So, what is also important to mention is: Yes, we have our traditional business with our long-term European customers, but in the meantime, we have also sizeable business in China with local companies, with companies that have joined the race and are also taking over market share. We have our business with all of these different customers everywhere in the world. I think that is also important to drive our automotive business: to support especially those customers who have the most convincing and innovative concept.

So, I think that the automotive industry will still be a very important one. If you take also the investments and the innovation they spend all over the world, then these companies will be also very innovative companies in the future, particularly with the transformation into electromobility, where we contribute also with our battery materials.

I would like to remind you that the share of chemicals in a car is higher in an electric car compared with a combustion engine car. So, overall, I think that is still a very important focus and a factor in BASF's profitable growth going forward.

**Chetan Udeshi (J.P. Morgan):** What do you think about Q1 consensus of €1.9 billion for EBIT before special items? It seems high to me, but any feel from you would be helpful.

**Dr. Martin Brudermüller:** I was already very explicit on the first half year of 2023 and made it clear that it will look very different from last year.

This is the number that is out and that you have in the consensus. I would not now dare make a statement on the Q1 result. I also think it is a little bit too early. As I indicated, we expect that China will maybe kick in later, more in the second half or possibly at the end of the second quarter.

But now, an early Chinese New Year and the fact that a second wave of corona did not put China on its knees as everyone feared might even help us to get a little bit more air into the business development in the first quarter.

It is, I think, too early to say that. I would finish by leaving you with the expectation of a significantly lower first half year.

**Matthew Yates (Bank of America):** Your margins in Agricultural Solutions have been trending lower for many years and are well below the targets outlined at the CMD in 2019. Ag seems to be the part of the portfolio you are most upbeat on for 2023. So can you talk a bit more about the drivers and the size of profit growth this year?

**Dr. Hans-Ulrich Engel:** You see significant improvement in the financial performance of our Ag Solutions business in 2022. That is driven by good volume development, but also, and in particular, by implementing price increases.

You may recall that for 2021 we were not necessarily happy with the overall performance and in particular pointed to maybe missed opportunities with respect to price increases. The team has clearly performed on a different level in 2022. It's a great result that they've generated; the start of 2023 looks good. This comes on the basis of strong soft commodity prices. We've seen some volatility there. But, overall, now entering 2023, if you look at historic averages, 2010 through 2021, all key crops, be it soy, be it corn, be it wheat, are at what I would call elevated prices. We don't see a reason why this should change. So, this should provide a good backdrop for also a strong Agricultural Solutions business in 2023.

Another factor that we see are sales channel inventories. The sales channel inventories are at normal to lower levels, let me put it that way. That should also support good, strong business in 2023. The team has also taken measures to improve the overall performance to get back to the margin targets that we have set for the Agricultural Solutions business. A good step there in 2022 and more steps to come in 2023.

## 3 Adaptation of Verbund structures in Ludwigshafen

**Tim Jones (Deutsche Bank):** Are the measures you have announced today in Germany everything that you plan to do and have agreed with the unions? Or should we assume, there could be more cost cutting and plant closures that may be in the pipeline but have not yet been formally agreed?

**Dr. Martin Brudermüller:** We have been looking at about 70 % of our assets – the most relevant in terms of energy flows and $CO_2$ generation. I would say that the program we have now is what you should expect for the years to come. I think we did it solidly.

We also made scenarios for some other assets. I mentioned the acetylene plant, which is a large consumer of natural gas. Certainly, it was heavily hit in 2022. But if you look into the global situation, then it regains its competitiveness. It is also a very important value chain and branches out into a lot of final consumer products.

So, we will focus on these measures now. We have given you, I would say, a fairly detailed view today. But as you can imagine, there are precursor plants, there are tie-ins, there are connections and knots and dots into the Verbund. So, implementing the changes is basically open-heart surgery while you produce. That will also take some of the time which we have to digest, and it also includes most of the really energy-intensive part.

From that perspective, you should not expect that there is now much more to come over the next years.

Can I exclude that we have to do further adaptations over time? I think it strongly depends on how Europe develops because, currently, if you look at the market development, the chemical market in Europe lost 6% of its volume last year, Germany even 12%. The expectation going forward for this year is not good either.

So, we aren’t talking about a growth scenario in Europe. There are many ifs and buts in terms of market which then have to be countered.

But I think what we have done now is a robust scenario for the coming years to prepare our assets here to do the next step of the transformation and to remain competitive.

**Markus Mayer (Baader Helvea):** Why does the closure of plants in Ludwigshafen not trigger further impairments? Do you not need to write down the TDI plant? Is the TDI plant closure more linked to the energy situation or to production issues the plant had?

**Dr. Martin Brudermüller:** First of all, let me say: Some of the plants I have mentioned – adipic acid, caprolactam – are part of BASF’s structure for a long time. These are rather old plants that have been totally depreciated. So, from that point of view, you don’t see any write-downs or impairments.

Coming with that, they had been under pressure also from market points in terms of utilization and now they really got another hit with the energy prices. This is why we now also have a good opportunity to restructure one of the oldest parts of the Ludwigshafen production setup.

The TDI plant is certainly a newer plant. The most disappointing part is actually the market development in Europe, which is significantly below what we expected and is likely to grow below 1% over the next 10 years. If you look at the supply-demand balance from a global point of view, we have a very low utilization at the global level for all the plants. TDI is also a product which is not so difficult to transport, much easier than MDI. So, you can run that as a global business. This is why all the assets worldwide can participate in regional markets.

I think this is one of the major aspects, also we don't see a scenario in which we can fully load these plants economically in terms of market development.

When it comes to the depreciation part, I'll hand over to Hans because that is the only plant that has a little bit less history in BASF than the other ones.

**Dr. Hans-Ulrich Engel:** Markus, if you look closely at the Q4 P&L, you see that there is a quarter of a billion in special items there. The vast majority of this are write-downs/impairments on plants in Ludwigshafen resulting from the high gas and energy cost, in other words: part of the closures that we are now announcing. I would say, digesting that in a quarter is a significant number.

**Mubasher Chaudhry (Citi):** With regard to the various shutdowns announced, is there any option to bring any of these plants back on line, should the demand picture improve in the medium term?

**Dr. Martin Brudermüller:** No, I think this is more or less excluded. First of all, if you start to shut down these plants and you really want to reduce the fixed costs, you have also to dissolve the teams and avoid remnant costs. If you don't do that, then you don't gain anything.

We will then clean up the plants and we will really shut them down. We will not demolish everything immediately. We don't need the space in Ludwigshafen at the moment.

In order to really tap into these roughly €200 million of fixed cost reduction, you really also have to eliminate the structures.

I would also say: Once you have started to close down an ammonia plant, which branches out as a very important raw material, you adapt a lot of service, utility, precursor plants to the new scenario. You certainly also reduce costs in these plants if they have lower capacities. So, if you take more of a mothballing approach, then you do not get the cost reductions. For that reason, we decided to close the plants for good.

**Andreas Heine (Stifel):** Where does BASF see future growth in chemicals in Europe and how can the Ludwigshafen Verbund site contribute to this growth?

**Dr. Martin Brudermüller:** We gave you our vision for Ludwigshafen. There have been several media reports suggesting that there is now total deindustrialization in Germany, and certainly a large site like Ludwigshafen is in the middle of that.

We are taking sizeable and, I would say, bold and courageous steps, but we are not shutting down Ludwigshafen. As I mentioned, we have adapted the site many times. We are deeply committed to Ludwigshafen with its excellent position and also the broad portfolio we have, basically being connected to all value chains and to many customers here in Europe. We want to keep that position going forward.

There will be a lot of regulatory changes like the Chemicals Strategy for Sustainability. There is the $CO_2$ topic, where we want to be the first to be able to supply our customers with solutions and products that are in line with all these regulatory changes and that also have the lowest $CO_2$ footprint.

That is actually something where you can grow your business even against the odds, because if your customers want to have low carbon products and there are not sufficient volumes on the market, you can also take away market share from others. That is a little bit our part of the formula, because what I do not expect with the overall situation is that Europe will return in the medium term to being a growth region where we come back to the growth rates that we saw maybe 15 or 20 years ago. I think that is not to be expected with the regulatory situation and also the high uncertainty when it comes to business cases for investments in Europe.

So, we have to make the best of things. And this is also why we said we will focus more on European customers. Ludwigshafen comes from a global idea. But given the competitiveness situation in Europe, it is more difficult to competitively supply customers all over the world from the site. That is why you have to focus on Europe with all the add-ons and the competitive advantages that I just mentioned.

So, we have to make something out of a low market growth environment and steal a little bit of growth by taking away market share from others by having better offers.

But let me also clearly say: We will significantly invest in Ludwigshafen in this transformation. We are on a long journey. We will also invest outside of Ludwigshafen to achieve the transformation. Our first big wind park off the Dutch coast is a very expensive investment, which we actually do for Ludwigshafen.

We clearly want to have Ludwigshafen in a very strong position in Europe and to contribute to the profitability of BASF globally.

**Georgina Fraser (Goldman Sachs):** What are your mid-term energy cost assumptions for Europe? What was the scenario under which the plant closure decisions have been taken?

**Dr. Hans-Ulrich Engel:** What we've done is: We worked with the overall assumption that the very competitive, not to say price-advantaged, gas deliveries from Russia will not play a role in Europe and in particular in Northwestern Europe going forward.

What does that lead to? That leads to the question: What will be the price setting for Northwestern Europe going forward? We think that there is a high likelihood that the price for Northwestern Europe for natural gas and then, resulting from that, to a certain extent also for power will be set on the basis of LNG imports. What are the key sources for LNG imports? As we all know, that is the U.S. and also Qatar. We think there is a high likelihood that the base for a price will be the Henry Hub price plus then the cost of the LNG supply chain.

In other words, from the liquefaction and transportation to gasification, that cost is somewhere in the order of magnitude of $5 to $6 per mmBtu. So, Henry Hub plus supply chain costs for LNG is what we think will form the basis for prices going forward.

We also think it will take probably about two years to get to this situation. This is, with all the problems in the entire system currently, probably the time to establish a full LNG supply chain. You know the situation in Germany where thankfully the first FSRUs, the floating terminals, are now up and running. But to create and establish an LNG import structure will take a bit of time.

But in the end, these are the assumptions that we used. In other words, with respect to natural gas and also power, a situation where prices should be higher in Europe than they were in the past.

**Dr. Martin Brudermüller:** Maybe to add to that, because competitiveness is relative and not absolute. You now hear politicians saying: Okay, the energy price is getting low now, so all the danger, everything is off the political agenda, also society feels safe.

But I think if you take the current price of roughly €50 per megawatt hour you have today and you compare it with the low number you have in the Henry Hub at the moment, you actually have a factor of six between Europe and the U.S. And that is quite significant if you are in an energy-intensive business.

I can only warn that this is not a topic that is going to go away quickly. We really have to look into the whole value chains in Europe. It is not only about our step. We have to bring the materials still competitively to our customers. But our customers throughout the value chain also they have to keep an eye on their competitiveness and ensure that they can keep their market share and their export businesses.

If they fail, then you will see a further softening of demand in the long run. This would make it difficult to keep the whole ecosystem of Europe, which is one of the very last one remaining or the only one where you have full value chains and interlinked value chains.

We will do our share, but I hope also that our customers are bold enough to restructure and take the right steps to ensure that the whole value chain stays competitive.

We have talked to a lot of customers about that, but that is also what we cannot totally factor into in our own exercise. We have to take care of our own business and the others have to take care of theirs.

**Andrew Stott (UBS):** What will be the loss of sales from the closures in Germany? I realize there is a set of assumptions, given reconfiguration of global utilization in some cases. But an approximation would be helpful.

**Dr. Martin Brudermüller:** I don’t think we will lose too much in sales. I wouldn’t want to give you a number, but it is rather insignificant if you look at the size of BASF and also at what we add in terms of growth. We are stepping out of some of the merchant markets, but we are also shutting plants and increasing the utilization of not fully utilized plants at other sites. So you have to take both of these components, which then add up to the result.

Please understand that I would also not like to give you a number for competitive reasons. But I don’t think this is something you should be worried about.

But let me also say: I think that what we were doing here and what we are proposing today shows that the Verbund is much more flexible than people always think. They think, if you take one piece out, then everything collapses. That is not the case. You can adapt the Verbund and that is what we are doing. It is complicated, and everyone has to be on board. But we know how to do that. You know that this is our strength.

I just wanted to make this addition one more time because sometimes people say that the Verbund is so rigid. Actually, what we are doing is a great demonstration that it’s not.

**Chetan Udeshi (J.P. Morgan):** Did BASF look at the Verbund structure itself as part of its recent analysis? If I push you a bit, two out of six key segments had EBIT loss in Q4 2022 and Group EBIT is down 70% year-on-year and is at the lowest level in any fourth quarter since the financial crisis.

**Dr. Martin Brudermüller:** We should also not think that the Verbund in Ludwigshafen is BASF. We have shown you the regional contributions, also with the overall negative result from our German operations. That means, actually €7 billion of EBIT before special items came out of the structures outside of Germany, where we have also significant Verbund structures and our Verbund sites also contribute.

Given the difficult year we had, particularly the second half last year, and the huge cost of energy we had to digest, I think that €6.9 billion as a Group result is rather strong. This is robust. And it is to a large extent also supported by Verbund structures outside of Germany and Europe. So, I think that proves that the Verbund is strong.

Certainly, when we do the analysis, we always look at the Verbund as such. Because with the transformation we have in mind, with the electrification, you have to look into that more broadly, also in terms of the right order of the measures you have to take. Particularly on this energy transformation road which we have embarked on, we have to look at the Verbund in a much bigger scale than we have maybe done in the past.

**Georgina Fraser (Goldman Sachs):** Did the reduction in gas consumption come mainly from reduced output? Can you quantify to what extent you are switching fuels and if that is still taking place?

**Dr. Martin Brudermüller:** As I mentioned, this extreme scenario that we can still run the site at 10% includes that a major part of the gas-intensive plants where you need gas as a raw material mainly are down. That is very clear. That is not a scenario you would like to have.

But it is a difference whether you have to shut down some plants and you still keep the site running, or you have to shut down the entire site. So, in that respect, the 10% is not something which we are looking for because then we only need 10% of gas. We would then also have a lot of production missing.

It is really a contribution out of knowing how you run the sites. It is additional ideas. As I mentioned, it is one idea that you can use a side stream in the cracker, which you normally burn, as a raw material feed for the acetylene plant, which is much cheaper than natural gas, even in this scenario today. So you reduce your costs there.

So, it is several of these elements where the BASF team is smart enough to look into additional parts of the Verbund which can contribute. And then there are the two combined heat and power plants that produce the majority of the steam and electricity here at the site. We are preparing to run half of the burners, so two out of four, with oil derivatives instead of natural gas if gas is either expensive or allocated. That would clearly increase our $CO_2$ emissions somewhat if we fully did that, but it makes us much more independent from the gas side.

So, it is different components. But I'm really happy that we have this flexibility because the 50% was a scenario which I think was very concerning for you, for us and for our customers. We are very happy that our customers very much acknowledge that there is currently no longer any risk of a shutdown in Ludwigshafen.

**Jaideep Pandya (On Field Investment Research):** What is the timing of the shutdown of the TDI plant? In the past you said that your plant had a good cost structure with backward integration? Is the closure related to Wanhua's 250 kt plant?

**Dr. Martin Brudermüller:** The biggest disappointment is actually the market development, because if you base your mathematics on the capacities you have, supply/demand and the growth, you cannot expect that to load this plant over the next years or by the end of the decade in a market environment that basically grows below 1%. I think that would be needed. We had also some technical difficulties at the beginning. We were disappointed by some of the components and the quality aspects that we saw there.

As I said, TDI can travel relatively easily – and if you also look at the capacities that have been built – if I remember rightly, it was something more than 500 kt in the last three years, and I think there is another 250 kt coming up from Wanhua this year – then you also see that the utilization rate globally is not really improving significantly until the end of the decade.

Looking at all of that – cost position, energy costs, utilization, load of the plant and everything –, this brought us to the conclusion that this is the step we need to take.

Also for competitive reasons, please understand that I don’t go further into all the details. But it will be a rather quick step. Do not expect that we have to wait another year or whatever.

**Charlie Webb (Morgan Stanley):** Is EU TDI production off the cost curve at current energy prices and no longer competitive domestically?

**Dr. Martin Brudermüller:** As. I said, competitiveness is a relative term. If you look at the energy situation in some of the countries with production positions, then depreciated, very well established plants – also in their local and regional markets where there is base load – have gained a better competitive position since Europe got into this difficult situation. So that also import material is coming into Europe.

So, for that reason, yes, that’s a good example where Europe has lost competitiveness.

**Sebastian Bray (Berenberg):** There is quite a lot of TDI capacity exiting the market as a result of changes announced. Will BASF need to spend on expanding assets elsewhere to compensate for this? Will you need additional shipping capacity for TDI? Also, how much soda ash capacity is being shut?

**Dr. Martin Brudermüller:** First of all, a clear no. No, we don’t need additional capex to expand capacities at other sites. We can use existing capacities to cover our European market position. Certainly, we have to increase logistics. This is clear. You have to organize this. You have then to establish a supply chain to ensure that you have enough volumes here in Europe from the imports to be on the safe side for your customers. This is all very clear. Please understand that, for competitive reasons, I’m not going to talk about capacities now for soda ash.

## 4 Cost savings program

**Chetan Udeshi (J.P. Morgan):** I heard Martin mention €1 billion in cost savings by 2026. But if I add €500 million in the non-production area and €200 million from the adaptions at the Ludwigshafen Verbund site, this totals only €700 million. How do you get to €1 billion?

**Dr. Martin Brudermüller:** It is very simple. There is a bigger project that contributes about €200 million from restructuring of the so-called Global Business Services that I mentioned in the speech. This is part of our strategy “empowerment, simplification, differentiation” where we have explained a lot of measures in the past, for example, the embedding. Then there is also a contribution from the IT landscape side. If you take these components, which are already under execution, and add them then you end up with €1 billion.

## 5 Regional investment framework

**Tim Jones (Deutsche Bank):** You make it very clear that Europe is not supporting you due to “overregulation and bureaucratic processes.” Are you therefore still confident that Europe is the right region to invest in battery materials, and should you not just focus on the U.S. and China?

**Dr. Martin Brudermüller:** I’m an optimist. But with all the work I do also in the political scene in Brussels and in Berlin – because I have currently the role of President of Cefic, the European association for the chemical industry – I have to admit that it is really tough if you look into all the regulatory packages that are coming and that affect the chemical industry.

We already have more than 7,000 pages of regulations for the chemical industry from the Green Deal. My guess would be that it will be 20,000 pages at the very end. So it is tough, particularly for the small and medium-sized enterprises, to cope with all that. And that is doing its share in a low-growth environment, in a high-cost environment, to really convince that you have to invest here. That is not really easy.

But, on the other hand, we have a big asset base here and we want to keep that asset base and to make it contribute to the BASF Group. Everyone is talking about the IRA. It is a very simple American answer that focuses on opex, while the Europeans focus on capex. So in Europe you get your funding to invest, but then no one takes care whether you earn money with it. The Americans ask you to take your own risk and make your investment, but they provide tax rebates that mean you can make money with it. I hope that this approach also makes a bit of an impact on the way we design our future in Europe.

So, I still do not give up on that. We actually cannot give up on that because of the footprint we have here. But we shared today that we think that our way to go for the energy transformation and doing that together with the customers is the right way to go forward. That is then maybe Europe’s way into the future.

Let’s see whether this formula works. But BASF will make its contribution in the expectation that this somehow works for Europe.

**Sebastian Satz (Barclays):** Can you elaborate to what extent BASF may be able to benefit from various government support packages for the energy transition? I am specifically thinking about the U.S. Inflation Reduction Act, for example, blue ammonia, or the discussions of an industry power price in Germany.

**Dr. Hans-Ulrich Engel:** We are looking into the incentives that come with the Inflation Reduction Act, which, by the way, is the misnomer of the year 2022. But that is a different story.

As you know, BASF invests in the markets where our customers are. So, we are investing in North America for our North American customers. We are investing in Europe for our European customers and in Asia for our Asian customers. That’s our basic philosophy. And this basic philosophy will not be changed as a result of support schemes such as the IRA.

Nevertheless, we are looking into it. There can be certain activities that clearly benefit. As you know, we have big activities on the U.S. Gulf Coast. We have a major investment at our site in Geismar, Louisiana, the new MDI plant there. You look at what we’ve just announced with respect to the five-year capex plan, where round about €4 to €4.5 billion is earmarked for North America for the next five years. So, you see this is a significant investment that we intend to do there.

And yes, in areas such as carbon capture and storage, the IRA provides, I would say, highly attractive incentives and we'll certainly look into that. But again, the basic philosophy is: We produce where our customers are.

The industry power price in Germany: I'd say, we need to see where that discussion is actually going. There are lots of ideas floating around at this point in time. You've seen, as an example, last year a situation where we came from a support system, a gas support system or gas cost support system, in the end carried by the industry to bail out the importers. You've seen what then happened and how the outcome looked completely different. So, with an industry price, I'd say, let's wait and see what the outcome of that discussion will be.

**Dr. Martin Brudermüller:** Maybe just one addition here: If you look at Germany particularly, but also Europe in general, maybe not France, but most of the other countries, they have rather had the approach in the past to make electricity and power expensive in order to drive energy efficiency.

Now, I think in the environment where we are that you need to electrify, you actually need the electricity as cheap as possible in order to make that a competitive transformation. So that needs a major mind shift in the way politicians think. This is also part of the discussion on industry prices for electricity. We say, if you want us to make our contribution – we had the question earlier on how likely it is that Europe makes its way – it strongly depends on how expensive power will be in Europe and how quickly you can access it. You know that, at least in Germany, a lot of the power price is also determined by tax for energy and by transportation costs through the grid. It's not only the production cost.

On the other hand, we had, I think, a major learning that particularly offshore wind in the North Sea is actually competitive from a production cost. So part of that principle has also to be that the governments have to put the industry in place to take their own investments to generate their energy like we have always done with our combined heat and power plants based on natural gas, but then do that in future also with renewables, also generating a framework that is not overregulated, which then also allows that critical infrastructure is actually to be used without cost.

That is a major mind shift that has to happen in some of the countries, but it has also to happen on the European level, where we desperately need a single EU market for energy. Currently, we are very far away from that because of national concepts. So, that will be a very critical determining step for Europe's future competitiveness.

**Charlie Webb (Morgan Stanley):** You mentioned the disappointing backdrop for EU chemical production and the overregulation. Do you sense any change in sentiment? From your discussions, will the European chemical industry in part or in whole fall under the EU IRA?

**Dr. Martin Brudermüller:** As I said earlier, this understanding that the U.S. is going on opex and the Europeans more on capex, I think this is just making its way now into the minds of people who are now working on the answers.

My concern is currently that we want to answer the IRA with the next regulatory packages. I think this is not doing the job. So, we have to also impact there and make people understand. I see that there is a certain nervousness in Brussels about what the right answer is because I think there's all the fundamental data about the growth and how much we lost now in this situation in terms of competitiveness. Whether we really get the right answers, I think, it's too early to say. But I can at least say that there is major concern, which was not there some months ago before the IRA came out.

## 6 Wintershall Dea

**Matthew Yates (Bank of America):** You got €700 million in cash from Wintershall Dea in Q4, which I think related to the 2021 results. Having generated €2.5 billion free cash flow ex-Russia in 2022, what dividend would you anticipate proposing to the Wintershall Board to be paid in 2023 and what is the timing of this?

**Dr. Hans-Ulrich Engel:** First of all, sizable dividend payment from Wintershall Dea, all based on the results of the non-Russian business numbers as stated by you.

With respect to the dividend decision for 2022: We expect a meaningful dividend, obviously also in the year 2023. But in the end, that is a decision that still has to be taken. So, at this point in time, I don't want to speculate with respect to the dividend payment coming from Wintershall Dea.

**Oliver Schwarz (Warburg Research):** Why was there a discrepancy between the €5.4 billion write-down on Wintershall assets in Q4 and the now recognized €4.7 billion? What changed in the meantime?

**Dr. Hans-Ulrich Engel:** That's pretty obvious if you look at the announcement that we made in the middle of January and you look at today's figures. The positive news is: There is improvement. The not so positive news is that there is a discrepancy. The reason for that simply has to do with the complexity of the accounting that needs to be done.

What is it in particular? You first of all look at the Wintershall Dea figures and you see that on a Wintershall Dea level you are at overall impact of Russian business, including on midstream and Germany onshore, the figure was €7 billion.

In BASF's books, this ends up in the end as €6.5 billion. At the point in time when we did the release due to having to communicate the deconsolidation – due to the developments between, let's say, December 22 with a new price decrease in Russia and then the final step on, I think, January 16, the restrictions with respect to voting rights of Board Members coming from so-called unfriendly states, there was no other way than to deconsolidate – we had to do everything at a very fast pace.

What we had not fully reflected at that point in time were, in particular, effects in other comprehensive income that went in different directions. So, there was a different movement, in particular a translation movement in Wintershall Dea books compared to the books of BASF SE, which had to do with a different timing. A long story. In the end, the amount of impairment is about €800 million lower than what we originally announced.

**Oliver Schwarz (Warburg Research):** The presentation says that BASF is standing by its strategic goal of selling its share in Wintershall Dea. However, an IPO as the most likely option is no longer mentioned. Any ideas on the timing and on the form of the divestment?

**Dr. Hans-Ulrich Engel:** As you know, we've made several comments with respect to timing. There was always something since 2020 that happened that then precluded us to implement according to the original plans.

I think the most important statement to make at this point in time is really: We are clearly committed and we're working on the exit diligently. And if there's more to be reported, we will certainly let you know.